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WEATHERING TARIFF TURBULENCE, INFLATION PRESSURES AND SHIFTING CAPITAL FLOWS

Trump's Tariff Gambit: 100% Semiconductor Levy and Gold Market Turmoil Shake Global Trade. U.S. President Donald Trump has announced a plan to impose a 100% tariff on foreign-made semiconductors, with the goal of bringing electronics supply chains back to the U.S. This tariff would apply to all countries and companies, but businesses that commit to investing in and building new facilities in the U.S. would be exempt. The proposal, which is being pursued under a national security law, has been criticized by some experts who worry it might not fully reduce U.S. reliance on foreign chips and could lead to higher consumer prices. The move represents a different strategy from the previous administration's approach of using subsidies to encourage domestic chip production, with Trump favoring tariffs as a way to force companies to invest in America. The U.S. government's recent decision to impose a substantial 39% tariff on specific imported gold bars has sent shockwaves through the global bullion market. The policy, which was clarified in a July 31 ruling by U.S. Customs and Border Protection, specifically targets 1kg and 100-ounce cast bars, a type of gold product that previously enjoyed a tariff-exempt status. This new levy is a significant blow to Switzerland, which dominates the world's gold refining industry and is the primary supplier of these bars to the U.S. A last-minute trip by the Swiss president to Washington to negotiate a lower rate proved unsuccessful. The tariffs were seen as a response to a massive surge in Swiss gold exports to the U.S., which had dramatically inflated Switzerland's trade surplus. Following the news, gold futures prices on the market surged to a record high, as the industry reacted to the potential disruption in the supply chain. The Swiss precious metals association has stated that the tariffs make it economically unviable to export these products to the U.S., and their president, Christoph Wild, has voiced serious concerns about the implications for the physical exchange of gold with their long-standing partner.

BoE Lowers Rates in Tight Vote, Citing Inflation Risk. The Bank of England (BoE) has lowered its interest rate to 4%, marking the fifth cut in a year, the lowest since March 2023. This decision, intended to bolster the U.K.'s weakening economy, was one of the narrowest in the Bank's history, with the Monetary Policy Committee (MPC) voting 5–4 in favor of the cut. Although the move was largely anticipated by financial markets, it comes with a significant note of caution. The Bank warned that rising food prices could drive inflation back up to 4%, from 3.6% in June (May: 3.4%), even as the broader economy continues to struggle. Based on its updated forecasts, the MPC cautioned that surging food costs could push food inflation to 5.5% by year-end. This inflation is being driven by a mix of global and domestic factors. Globally, extreme weather events have impacted harvests for crops like cocoa and coffee. Domestically, the Bank pointed to rising labor costs and new government-mandated charges for recycling packaging, which U.K. supermarkets are passing on to consumers. Governor Andrew Bailey described the decision as "finely balanced." He emphasized that while interest rates are still on a downward path, any future cuts will be made "gradually and carefully" due to these persistent inflationary pressures. The split vote within the MPC highlights the tension between supporting economic growth and controlling inflation, as some members felt it was too risky to cut rates at this time.

Upcoming Events: Key Economic Data Release

Monday	Malaysia Labour Market (June)
Tuesday	U.S. CPI (July), Reserve Bank of Australia (RBA) meeting, Singapore 2Q GDP (final), U.K. unemployment rate (June)
Wednesday	Bank Of Thailand (BOT) meeting
Thursday	U.K. 2Q GDP (Preliminary), E.U. 2Q GDP (final), U.S. PPI (July)
Friday	Malaysia 2Q GDP, U.S. Retail Sales (July), China Retail Sales, IPI, FAI (July), Japan 2Q GDP (Preliminary)

Weekly Changes, basis points (bps)

UST	Yields (%) 25-Jul-25	Yields (%) 1-Aug-25	Change (bps)	Yields (%) 8-Aug-25	Change (bps)
3-Y UST	3.86	3.67	-19	3.70	3
5-Y UST	3.95	3.77	-18	3.84	7
7-Y UST	4.15	3.97	-18	4.03	6
10-Y UST	4.40	4.23	-17	4.27	4
MGS	**Yields (%) 25-Jul-25**	**Yields (%) 1-Aug-25**	**Change (bps)**	**Yields (%) 8-Aug-25**	**Change (bps)**
3-Y MGS	3.05	3.06	1	3.03	-3
5-Y MGS	3.15	3.17	1	3.11	-5
7-Y MGS	3.34	3.35	1	3.28	-7
10-Y MGS	3.41	3.40	-1	3.37	-3
GII	**Yields (%) 25-Jul-25**	**Yields (%) 1-Aug-25**	**Change (bps)**	**Yields (%) 8-Aug-25**	**Change (bps)**
3-Y GII	3.11	3.11	0	3.06	-5
5-Y GII	3.19	3.20	1	3.15	-5
7-Y GII	3.34	3.35	1	3.26	-9
10-Y GII	3.46	3.43	-3	3.40	-3

Sources: Federal Reserve Board, BNM, Bank Islam

Commentaries

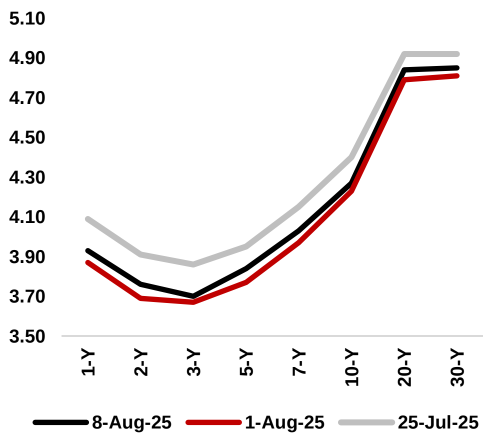
UST Yields

The U.S. Treasury (UST) yields surged in the range of 3bps to 7bps w-o-w for the week ending August 8 (Aug 1: -17bps to -19bps). UST yields for long-term bonds increased after a weaker-than-expected auction for 10-year notes. This rise in yield followed a lack of strong demand for the USD42 billion sale, which was the second of three auctions scheduled last week. However, the rise in yields was capped following the release of disappointing U.S. payroll and ISM Services data, which indicated a weakening economy. In July, the U.S. economy added 73K jobs, which was a significant drop from the previous month's revised figure of 14K new jobs. This number also fell short of the 110K jobs that were expected by the market.

Dovish comments from Federal Reserve (Fed) officials reinforced market expectations for multiple rate cuts, leading investors to re-evaluate the Fed's policy path. Minneapolis Fed President Neel Kashkari suggested that a slowing U.S. economy could soon warrant a rate cut, and he continues to anticipate two cuts by the end of the year. Separately, Fed Governor Lisa Cook noted that weaker-than-expected July's employment data might indicate a turning point for the U.S. economy.

While political developments, such as President Trump's removal of the Bureau of Labor Statistics chief and rising trade tensions with India, introduced some uncertainty, the market's primary focus remained on the deteriorating economic conditions.

UST Yield Curves, %



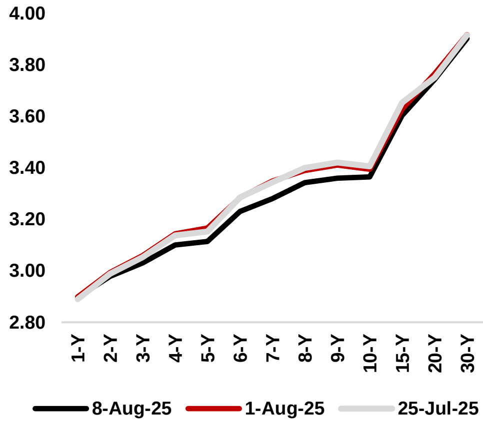
Sources: Federal Reserve Board, Bank Islam

Short-term outlook: UST yields are expected to increase slightly in anticipation of upcoming inflation data. A higher-than-expected inflation reading would likely push yields even higher. The market may also see increased volatility and uncertainty due to recent tariff announcements and speculation about future actions by President Trump, particularly regarding the Federal Reserve (Fed) and the impact on the independence of U.S. central bank.

MGS/GII Yields

Yields on both Malaysian Government Securities (MGS) and Government Investment Issues (GII) closed lower on a w-o-w basis, dipping by between 3bps and 9bps for the week ending August 8 (Aug 1: -3bps to +1bp). Investor sentiment improved after the US announced a 19% tariff on Malaysian exports, which was lower than many had anticipated. This news, which alleviated pressure on Malaysia's key export sectors, combined with a positive outlook for the economy from the 13th Malaysia Plan (13MP), sparked a wave of optimism in the market. The markets believe that measures to address the cost of living and the new infrastructure projects outlined in the 13MP will continue to support the market in the near term.

MGS Yield Curves, %



Sources: BNM, Bank Islam

Globally, U.S. President Donald Trump has announced a proposed 100% tariff on semiconductors imported from outside the U.S. The measure is aimed at encouraging tech companies to move their manufacturing operations to the United States. However, companies that have already committed to or are in the process of building semiconductor plants in the U.S. may be exempt from the tariff.

Short-term Outlook: Bond yields are expected to remain stable this week ahead of key economic data release from both Malaysia and the U.S. Domestically, June retail trade grew 5.4% (May: +4.9%), a pickup that could help support market sentiment. For this week, market awaits 2Q2025 GDP and labour market data which could give a further boost. Nevertheless, the rally in yields may be limited by persistent uncertainty about the U.S. economy and ongoing risks from tariffs, particularly on semiconductors.

Foreign Flows into Local Bonds Market.

The local bond market recorded net foreign outflows of RM5.5 billion in July (June: -RM5.4 billion) for the second consecutive months given the prolong U.S. tariff uncertainties ahead of August 1 deadline. Consequently, the accumulated total foreign holdings of Malaysia debt securities declined further to RM291.1 billion in July (June: RM296.6 billion).

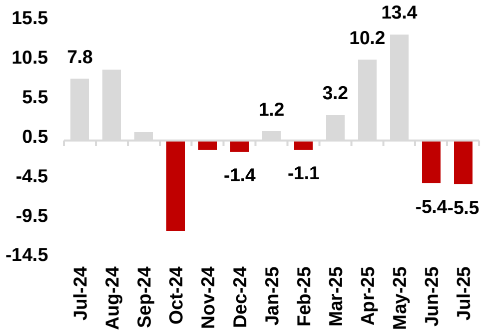
MGS and GII recorded net outflows of RM5.2 billion (June: -RM2.9 billion) and RM28 million (June: -RM2.4 billion) in July, respectively. Additionally, Malaysia Islamic Treasury Bills (MITB) was in the negative territory with net foreign outflows of RM0.3 billion in July (June: -RM0.4 billion). In contrast, corporate bonds were in the positive region with net inflows of RM41 million (May: +RM903 million).

Total foreign holdings' share to total outstanding in MGS slumped to 34.6% in July (June: 35.7%). Other segments of the local government bond market also dipped with the share of foreign holdings of GII and MITB edged lower to 8.7% (June: 8.9%) and 6.7% (June: 8.7%). Of note, the percentage of foreign holdings to total outstanding in local govvies bonds declined to 22.1% in July (June: 22.8%). Overall, the foreign holdings' share of total outstanding edged lower to 13.6% in July (June: 14.0%).

Total cumulative foreign holdings in the local bond market closed at RM15.9 billion as of July 2025 and significantly higher relative to the cumulative net foreign inflows of RM8.7 billion from January to July 2024.

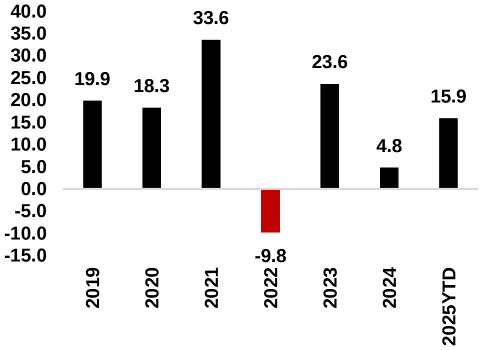
Short-term outlook: Capital flows into emerging markets, including Malaysia, are expected to remain volatile as investors are moving their money to countries they believe are better positioned to handle new U.S. tariffs and trade policies. President Trump recently announced a proposed 100% tariff on semiconductor imports, with exemptions for companies that are building or have committed to building manufacturing facilities in the U.S. In response, Malaysia's Minister of Investment, Trade and Industry (MITI) is seeking clarification. While Malaysian semiconductor exports are currently exempt from retaliatory tariffs, the minister stated that if the new tariffs were to apply, it would be a significant blow to the industry.

Foreign Fund Flows in Local Bond Market, RM Billion



Sources: BNM, Bank Islam

Cumulative Net Foreign Flows in Local Bonds (Yearly Comparison, RM Billion)



Sources: BNM, Bank Islam